

A Canadian Perspective on USMCA, COVID-19, and Global Supply Chains

International Economic Development Council, Webinar
August 13, 2020

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Canada played defense with USMCA

Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal



President Trump pulled out of the Trans-Pacific Partnership on Monday and proposed massive cuts in taxes and regulations for businesses. Doug Mills/The New York Times

By Peter Baker

Jan. 23, 2017

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Trump says he'll give notice of Nafta exit in bid to pass USMCA



Trump Says He'll Give Notice of Nafta Exit in Bid to Pass USMCA

President Donald Trump said he would soon tell Congress of plans to terminate the existing North American Free Trade Agreement, a move that would give ...
[bloomberg.com](https://www.bloomberg.com)

11:52 PM · Dec 1, 2018 · [SocialFlow](#)



Donald J. Trump @realDonaldTrump · Sep 1, 2018

There is no political necessity to keep Canada in the new **NAFTA** deal. If we don't make a fair deal for the U.S. after decades of abuse, Canada will be out. Congress should not interfere w/ these negotiations or I will simply terminate **NAFTA** entirely & we will be far better off...

26.5K 24.9K 91.1K



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USMCA's economic impact is negative

Table 1: Summary of Main Results

	CUSMA		NAFTA Lapsing	
	Real GDP (percent change)	Welfare (US\$billions at 2019 prices)	Real GDP (percent change)	Welfare (US\$billions at 2019 prices)
Canada	-0.40	-10.8	-0.49	-13.9
Mexico	-0.79	-14.9	-1.09	-23.0
United States	-0.10	-17.4	-0.10	-22.4

Note: The "NAFTA Lapsing" figures from the latter study are for the scenario in which NAFTA lapses, but Canada and Mexico continue to enjoy free trade under CPTPP terms. Further, the figures reported in Ciuriak et al. (2017b) are converted from original GTAP V9 data in 2011 USD to 2019 USD here. Finally, note that the CUSMA results reported here do not include an estimate of the impact of the increase in general uncertainty about future market access in the United States.

Source: Authors' calculations; Ciuriak et al. (2017b).

Source: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper-Ciuriak-Dadkhah-Xiao-2019.pdf

Table 8: CUSMA Sectoral Impacts: Canada

	Bilateral (US) Exports (US\$ millions)	Bilateral (US) Imports (US\$ millions)	Total Exports (US\$ millions)	Total Imports (US\$ millions)
Agriculture and Food	-12	263	118	62
Dairy	5	252	-68	226
Resources	-766	-469	-438	-759
Manufacturing	-3,135	8,133	-3,553	-2,320
Industrial Materials	-1,254	2,473	-1,330	-2,210
Automotive	-1,121	3,567	-1,438	406
Services	139	-766	699	-1,743
Total	-3,774	7,160	-3,174	-4,760

Note that Canada's bilateral trade impacts reflect trade with the United States.

Source: Calculations by the authors.



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Rules of origin have become more complex

- Less investment in Canada?
 - Cheaper to invest in US if it is the main market
- Costlier to make supply chains more resilient
 - Need to shift geographies rapidly in case of disruption
 - Bring in additional suppliers from different regions (admin and monitoring costs)
- More firms (especially SMEs) will not bother and pay the tariff instead
 - So, no increase in North American sourcing



Digital trade and e-commerce

- Increase in *de minimis* level for exports to Canada (good for e-commerce)
 - From C\$20 to C\$40
- Better protection for cross-border data flows
 - Less need for data and service localization, so more efficient operations
 - Excludes digital goods and services to governments

Remaining uncertainties

- Section 232 tariffs (e.g., aluminum)
- No more investor-state dispute settlement (ISDS) mechanism between Canada and US
- Sunset clause
 - USMCA expires on July 1, 2036, unless all parties agree to extend it

